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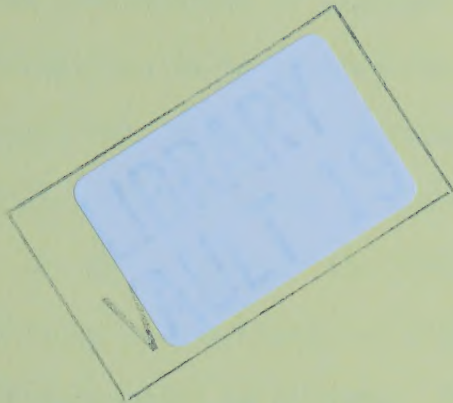
1969

REAL PROPERTY ASSESSMENT AND TAXATION

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BRIEF

SUBMITTED BY

ALBERTA ASSOCIATION

OF

MUNICIPAL DISTRICTS

& COUNTIES

SEPTEMBER, 1969



ASSESSMENT & TAXATION

Since the enactment of the Municipalities' Assessment and Equalization Act the Assessment Branch of the Provincial Government has accepted Assessments on land from urban areas based on fair market value, and from rural areas on the basis of land productivity, Bill 35 of 1969 permits the continuation of assessment on this basis, and the primary purpose of this Submission is to demonstrate that, contrary to the contention of some urban groups, the farming population has and will continue to bear its' fair share and more of the burden of property taxation.

In the past there has been a considerable amount of discussion with regard to certain inequities, or possible inequities, in regard to certain aspects of assessment in Alberta. The complaint of summer villages which lead to the recent Court hearing arose primarily out of the fact that summer village residents felt that they were bearing too great a tax burden in relation to services rendered to them by the municipalities in which they were situated. It is submitted that this complaint was not in reality based on the difference between rural and urban assessments under the Act. There has been a further complaint by the Urban Association that the exemption of farm buildings was subject to abuse by those persons which we will refer to later as "hobby farmers". It is acknowledged that this particular complaint is justified, but we respectfully submit that it is due to inadequacies in the legislative provisions pursuant to which the exemption is conferred.

It is the unanimous feeling of the Association that farm land must be assessed on a productivity principal as this is the only fair and equitable means of assessment. We attach herewith supporting studies prepared by two independent Consultants, Hedlin Menzies & Associates Ltd. and Hu Harries & Associates Ltd., which clearly illustrate that the principle of Assessment

based on the Productivity of Farm Land is sound in Economic Theory and in Practice. To illustrate our point, land still being farmed under lease or rental agreement has sold as high as \$2,000. or \$3,000. per acre for future Urban development. Until it is developed for housing or industry it is only right that it continue to be assessed as agricultural land. This same situation arises on non-agricultural lands where it is rezoned R6 but continues to be assessed as R1 as long as it is occupied as R1.

A problem arising between Rural and Urban Assessment is the fact that Property Tax is in part being used to provide services to people such as Health and Education. Were property taxes being used exclusively to provide services to property it would not matter what figures or values were used in arriving at the assessment as long as it was equitable within the Rural area or within the Urban area. If lower figures were used in one than in the other it would then be compensated in the mill rate.

Property has been used as a tax base back into antiquity. It provides a fairly comprehensive and easily understood tax base and applies to a wide range of the population. There are, however, some characteristics of property tax which are not so desirable. Not everyone is an owner of real property which is taxed and as such do not contribute directly to many of the services they receive. Property taxes are regressive in that they are fixed so that if the income declines the tax instead of declining with it, actually takes a larger portion of it.

There is no doubt that the exempting provisions of the Assessment Act have been and will continue to be subject to criticism on the basis that inequities are created by them. It is also clearly the view of many people

that different bases of assessment as between rural and urban governments create inequities which affect both municipalities and ratepayers, such as:

- (1) the assessment of machinery and equipment in rural industrial plants as compared with the application of the business tax in cities, towns and villages.
- (2) the assessment of Urban Residences and the complete exemption of Farm Residences. Here we wish to state we are fully aware of inequities in this connection and wish to suggest that only Residences which are "Used and Useful" to the Farm operation be exempted.

The Association believes in a philosophy of equal opportunity and service for all of the people in Alberta in respect to those traditional municipal fields of education, health and welfare. This may mean that all persons should contribute according to their ability to pay, and to suggest that the ownership of real property is the only indicator of this ability or even a good indicator is inherently false. The particular services mentioned herein are services to people, not property, and it follows that property might properly be relieved of a greater portion of the fiscal responsibility in this regard.

To make the Province totally responsible for the provision of funds for educational and hospital services up to an approved level, with unapproved costs still to be raised locally to serve as a check, will put the financial responsibility where it belongs. At the same time such a procedure would make available to local municipal governments additional tax revenue by way of the property tax to finance and maintain those municipal services that directly benefit or are attributed to real property.

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The Association believes in a philosophy of equal opportunity and service for all of the people in Alberta in respect to those traditional municipal fields of responsibility. It is our belief that all persons should contribute according to their ability to pay, and to suggest that the ownership of real property is the only indicator of this ability or even a good indicator is inherently false. The particular services mentioned herein are services to people, not property, and it follows that property might properly be relieved of a greater portion of the fiscal responsibility in this regard.

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In these areas, the level of service is still determined by the local ratepayer and the amount he is prepared to pay is also within his jurisdiction.

We do not think that the question of local autonomy will be of concern insofar as it relates to the question of the method of sharing costs in the two areas of education and health services. Over the past number of years, the Province has assumed an increasing proportion of the cost of health and welfare and education. All of the foregoing services mentioned are in the final analysis the responsibility of the provincial government under the terms of the B. N. A. Act. The fact that some of the administrative and fiscal responsibility has been transferred to the municipalities does not relieve the provincial government from final responsibility, and the cost sharing and grant arrangements prevalent at all levels is an indication of this. It now seems advisable that they assume all of these costs up to a prescribed level similar to the Foundation Program.

As mentioned previously herein it has been suggested the Rural property owner is not paying his fair share of the Tax load. No one is more cognizant of the fact that inequalities exist in rural assessment than the Association and its members. We feel it is unreasonable that a small segment of the Rural dwellers are able to avoid payment of a fair share of taxes because they are able to qualify for exemption of tax on their dwelling and/or buildings, as Farmers. We speak here of the hobby farmer regardless of the number of acres he owns and the so called landless farmer such as operators of Feed Lots - Broiler Stations, etc. In the broadest sense of the term they may be farmers but we would suggest the exemption as

originally granted was never meant to cover such operations.

Thus we suggest Farm Buildings should be defined as "improvements used in connection with the raising and production of crops or livestock or poultry or in connection with fur production or beekeeping and situated on land

- (1) consisting of one or more adjacent parcels
- (11) used in connection with the raising or production of crops or livestock or poultry or in connection with fur production or beekeeping and
- (111) operated as a unit by a person who derives from that activity on that land his chief source of livelihood and whose principal occupation is the raising and production of crops or livestock or poultry, or fur production or beekeeping.

Further some consideration should be given where a farmer may from time to time as a result of hail, drought or other factors of nature beyond his control be forced to supplement his income from other occupations as long as farming continues to constitute his principal occupation. We do not wish to suggest this definition is the final answer as we are inclined to believe we must define the operation rather than the individual. However at the point of writing this Brief we are unable to adequately define the operation but will continue to pursue this line of thought in the hope that we can define the operation to our satisfaction.

In proof of the statement that farmers generally are now paying more than their fair share of the tax burden for Health and Education we submit the following for your consideration.

The following list of 33 Rural Municipal Districts and Counties compares (1967 figures) the Assessment per pupil between Rural and Urban Pupils living within the boundaries of a given Municipal District or County. Also shown is the assessment per pupil within the Cities of Edmonton, Calgary and Red Deer.

Assessment Per

County or Municipal District	Urban Pupil	Rural Pupil
<u>Smoky Lake</u>	6,700	4,400
Pincher Creek	5,450	12,800
Taber	5,260	6,100
Starland	5,400	15,060
Wainwright	5,600	9,800
Wheatland	5,600	12,450
Mountain View	4,650	8,600
Willow Creek	5,350	9,550
Paintearth	5,000	10,400
Westlock	4,900	5,700
Lacombe	5,070	10,500
Forty Mile	5,200	13,800
Vulcan	5,540	15,300
Leduc	5,080	12,300
<u>Strathcona</u>	13,500	10,500
Thorhild	4,740	8,740
Fairview	5,460	7,500
Rocky View	3,840	11,000
Sturgeon	4,340	8,400
<u>Barrhead</u>	7,340	3,120
<u>Vermilion River</u>	11,900	8,350
Lethbridge	3,330	8,640
Newell	4,160	8,140
Two Hills	7,000	7,100
Red Deer	4,600	7,600
Smoky River	4,200	4,600
Warner	3,000	12,800
Kneehill	6,800	14,000
Beaver	6,400	8,400
Cardston	3,500	9,600
Peace	5,300	6,900
Flagstaff	4,600	9,200
Ponoka	4,910	6,470
Total	183,720	307,820

Average

5,567

9,328

Note: Underlined districts are the exceptions to the rule and reasons are semi urban or as a result of marginal land.

Edmonton	6,784
Calgary	7,196
Red Deer	5,585

In consideration of the foregoing it must be emphasized that the assessed value of real property is not in this instance an indication of Ability to Pay. This is recognized by Economists to-day and is very well illustrated in the attached study by Hedlin Menzies & Associates in the Table #2 on page 20.

It has been suggested that because most Rural pupils must be bussed to school they should pay more. Here it can be argued that the cost of educating a child should be equalized regardless of where he lives. However, to show that Farmers do pay this cost we submit the following prepared by the Willow Creek School Division #28 again based on 1967 figures.

1. Total enrollment (Foundation Program)	2,976 pupils
2. Indian pupils (Foundation Program)	152
3. Bus Pupils (non Indian)	1,244
4. Total urban pupils (non Indian)	1,580
5. Rural Assessment (Equalized)	\$14,538,618.00
6. Urban Assessment (Equalized)	\$ 8,486,375.00
7. School Foundation Program Levy	28 mills
8. School Supplemental Levy	2 mills
9. Total miles travelled by busses 1967	867,497 miles
10. Total transportation costs 1967	\$227,367.94
11. Amount received from Federal Government	
re: Indian pupils	\$ 72,393.36

If we assume that the entire cost of transportation should be borne by the rural taxpayer, the following comparisons emerge:

12. Rural levy for schools @ 30 mills \$436,158.54

13. Urban levy for schools @ 30 mills \$254,591.25

Rural levy	\$436,158.54
Less Trans. costs (item 10)	<u>\$227,367.94</u>

Apparent amount contributed to school operation	\$208,790.60
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Contribution from Property Tax per rural pupil (item 3)	<u>\$208,790.60</u>	=	\$167.84
	1244		

Contribution per urban pupil from Property Tax (item 4)	<u>\$254,591.25</u>	=	\$161.13
	1580		

From this you will note the contribution per rural student is still greater than the urban even though the entire cost of bussing is absorbed by rural before comparison in the above illustration. We would point out that Rural students do not benefit from extra curricular activities as do their Urban counterparts as invariably schools are now located in the Urban centre. It may also be suggested here that a large percentage of Rural Students will migrate to Urban Centres after graduation.

The following chart (using 1968 figures) compares assessment (Urban vs Rural) on a per capita basis and shows clearly that for every 70¢ paid into the Foundation programme by Urban dwellers the Rural dweller pays in \$1.00.

	Equalized Assessment	Population	Assessment Per Capita	Rural
Cities	1,574,967,649	873,720	1,802.59	73.8
Towns	255,586,069	188,767	1,353.97	55.5
Villages	60,921,246	44,900	1,356.82	55.6
Counties	493,730,607	202,657	2,436.28	
M. D. 's	252,275,604	102,034	2,472.46	
I. D. 's	186,069,243	77,317	2,406.57	
Special Areas	33,648,533	7,974	4,219.78	
	2,857,198,951	1,497,369		
Urban	1,891,474,964	67% 1,107,387	74.35% 1,708.05	70.0
Rural (except special areas)	932,075,454	33% 382,008	25.65% 2,439.94	100.0
	2,823,550,418	100% 1,489,395	100.00%	
Special Areas	33,648,533	7,974		
	2,857,198,951	1,497,369		

The special areas were left out for the calculation of percentages because we might be accused of trying to use depressed areas to influence the result. It will be seen then, for every dollar per capita required from rural people (apart from special areas), the Urban contribution toward the Provincial requisition for Health and education is 70¢ per capita, even though industry and the Summer Villages are included in the Urban figure.

To conclude may we state it is our opinion that Farmers are paying more than their share. We are most emphatic that if any changes

are to be made in assessment procedures consideration must be given to the present imbalance of tax burden and that the imbalance now favoring the Urban element must be adjusted.

Summer villages have received a reduction in assessment as they are only used for a portion of the year. We might point out here that farm land used to raise grain is only used 120 days per year and pasture land an average of perhaps 180 days.

Further we would point out that certain Industrial plants have obtained a reduction in tax when for one reason or another they have been unable to produce to capacity. A Farmer is unable to obtain a similar reduction when due to hail, drought and frost etc., his production is reduced and now his markets are limited and he is limited to a given number of bushels per acre that he may sell to the Wheat Board.

In support of various of our arguments we wish to quote the Honourable Raymond Reiersen when he spoke to our 1968 Convention as follows:

"I would like to say at the outset that farmers in Alberta are paying their share of property taxation. They are covering their obligations in full. They have as agriculture, one-third of the total equalized assessment of this province. They have twenty-two per cent of the population, they are paying a mill rate above the average in the province and consequently pay more than one-third of the total property taxes collected, and this is from the figures of the Department of Education and the Department of Municipal Affairs. One-third roughly of the assessment then is urban residential and the other third roughly is

commercial and industrial. Now having said that I would like to say that we will find ways to deal with the tax dodge of building homes on farm land to avoid paying legitimate property taxes without bonafide farmers being penalized. This is going to require joint action between yourselves as an Association, the farm organizations and the Government. Certainly we do not need to tax farmer occupied, farm dwellings in order to meet this situation unless, there is a way that would be found acceptable to yourselves and to farmers themselves to meet the tax dodge situation. So as long as we keep in mind the proportional situation that the farmers to-day are meeting their full share, if not a shade more, then of course, we can feel in whatever we do, that we protect this situation. I said at the outset that farmers are paying their share of property tax on the present ceiling of \$40.00 per acre. Using the selling price of land as a base factor is not fully the fair one as far as agriculture is concerned in that farm land prices are inflated to-day for a number of unique reasons and the main reason is the scarcity of available good farm land. They do not reflect the revenue potential. A farmer cannot operate successfully from small acreages. So in order to reduce unit costs, he is striving to increase his acreage and his total production, in other words - by using larger machines, cutting down labor content and dealing with larger acreages even though the farm population is dropping and this is essential to a degree. The competition for land together with available credit facilities for purchase has escalated prices."

As stated herein we feel Health, Education and Welfare which are services to people should not be supported by a tax on real property to the extent that it is to-day. If these are removed property tax would then support services to property only and it would be immaterial what value was placed on farm land so long as it was not a purely speculative value.

One further item to show the Alberta Farmer is paying more than his share of the property tax load is the fact that between 1960 and 1967 inclusive they paid 8% of net farm income in property tax as compared with non farm residents who paid 3.9% of personal income on property tax. It is interesting to note that even though farm productivity has increased the return on investment and income is going down.

In Summary this Association respectfully submits:

1. The concern of the Urban element appears to have been that the variances in assessment procedure resulted in inequities favoring the Rural or Farm element. We suggest we have illustrated this is not the case and that in fact the reverse is true.
2. If any changes in Assessment Procedure are made the percentage of the overall tax burden to Farmers should be adjusted downward.
3. Assessment of Farm Land must continue to be based on Productivity of the Land rather than Market or Fair Actual Value.

4. Residences of so-called Hobby Farmers and those of Landless Farmers and those which are not "Used and Useful" should be assessed and taxed.
5. The Tax on Real Property should be relieved of more of the burden of Social Services such as Health, Welfare and Education.

Respectfully submitted,

The Executive

The Alberta Association of
Municipal Districts and Counties.

